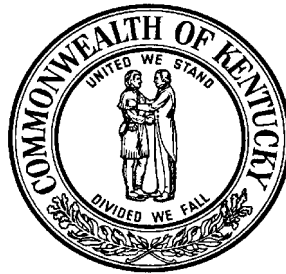


**REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2001**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable L. C. Reece, Lee County Judge/Executive
Honorable Harvey Pelfrey, Lee County Sheriff
Members of the Lee County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Lee County, Kentucky, for the year ended December 31, 2001.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Lee County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
LEE COUNTY SHERIFF**

Calendar Year 2001

BERGER & ROSS, PLLC
Certified Public Accountants & Fraud Examiners
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Louisville, KY 40299-1837
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LEE COUNTY SHERIFF

Calendar Year 2001

Berger & Ross, PLLC has completed the Lee County Sheriff's audit for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presently fairly in all material respects.

Financial Condition:

Revenues increased by \$6,265 from the prior year and disbursements increased by \$2,804.

Report Comments:

- The Sheriff Should Prepare Accurate Classifications On Financial Reports and Keep Consistent Financial Records.
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits.
- The Sheriff Should Publish Financial Statements Within 60 Days After Year-End.
- The Sheriff Should Not Write Checks Made Payable To Cash.
- The Sheriff Should Categorize Payroll Deductions By Category On Computer Software.

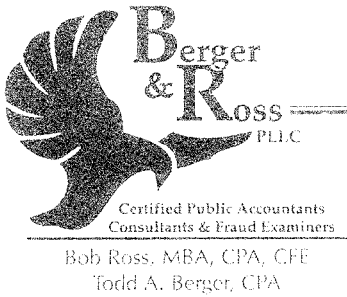
Deposits:

The Sheriff's deposits were not insured and collateralized by bank securities or bonds.

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Kentucky Society of CPAs
Association of Certified Fraud Examiners
Association of Government Accountants
International Association of Tax Professionals
National Association of Accountants
National Association of Public Accountants
Kentucky Tax Association

To the People of Kentucky

Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable L. C. "Bub" Reece, Lee County Judge/Executive
Honorable Harvey Pelfrey, Lee County Sheriff
Members of the Lee County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Lee County, Kentucky, for the year ended December 31, 2001. This financial statement is the responsibility of the Lee County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Lee County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the receipts and disbursements of the Sheriff for the year ended December 31, 2001, in conformity with the basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable L. C. "Bub", Lee County Judge/Executive
Honorable Harvey Pelfrey, Lee County Sheriff
Members of the Lee County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 28, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Prepare Accurate Classifications On Financial Reports and Keep Consistent Financial Records.
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits.
- The Sheriff Should Publish Financial Statements Within 60 Days After Year-End.
- The Sheriff Should Not Write Checks Made Payable To Cash.
- The Sheriff Should Categorize Payroll Deductions By Category On Computer Software.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", written in a cursive, flowing style.

Berger & Ross, PLLC

Audit fieldwork completed -
June 28, 2002

LEE COUNTY
HARVEY PELFREY, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 2001

Receipts

State Fees For Services:

Finance And Administrative Cabinet	\$ 2,520	
Cabinet Human Resources	670	
Delinquent Tax - Other Counties	821	\$ 4,011

Circuit Court Clerk:

Sheriff's Security Fees	\$ 2,187	
Arrest Fees	610	2,797

Fiscal Court:

Election Commission		770
---------------------	--	-----

County Clerk: - Delinquent Taxes

1,039

Commission on Taxes Collected

55,512

Sheriff's Fees on Taxes Collected

10% Add-On Fee	\$ 10,309	10,309
----------------	-----------	--------

Fees Collected for Services:

Auto Inspections	\$ 1,730	
Serving Papers	9,395	
Accident/Theft Reports	1,016	12,141

Other:

Carrying Concealed Deadly Weapon Permits	\$ 2,945	
Transport	406	
Calendar Reimbursements	312	
Miscellaneous	783	4,446

Interest Earned

1,433

Borrowed Money:

State Advancement		24,000
-------------------	--	--------

Gross Receipts

\$ 116,458

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
HARVEY PELFREY, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
Calendar Year 2001
(Continued)

Operating Disbursements:

Personnel Services-		
Deputies' Gross Salaries	\$	2,632
Material and Supplies-		
Office Material and Supplies		1,277
Automobile Expenses-		
Gasoline	\$	12,038
Maintenance and Repairs		5,965
		<hr/> 18,003
Other:		
Advertising	\$	428
Bonds		503
Carrying Concealed Deadly Weapons		2,215
Court Bailiff/Contract Labor		1,222
Dues		450
Electronic Repair/Radio Equipment		248
Fee to Fiscal Court		2,350
Miscellaneous		1,606
Postage		435
Recompenses/Refunds		218
Travel		564
Uniforms		894
Vehicle		3,000
		<hr/> 14,133
Debt Service:		
State Advancement		<hr/> 24,000
Total Disbursements	\$	<hr/> 60,045
Net Receipts	\$	56,413
Less: Statutory Maximum	\$	55,467
Less: Incentive Pay		730
Less: Audit Repay not to be included for 2001		187
		<hr/> 56,384
Excess Fees Due To Fiscal Court:	\$	29
Less: Payment to Fiscal Court - July 2, 2002		<hr/> 29
Excess Fees Due to Fiscal Court:	\$	<hr/> <hr/> 0

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENT

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations back by good faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 7.17 percent for the first six months of the year, and 6.41 percent the last six months of the year.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENT
December 31, 2001
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 13, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$198,351 of public funds uninsured and unsecured.

COMMENTS AND RECOMMENDATIONS

LEE COUNTY
HARVEY PELFREY, SHERIFF
COMMENTS AND RECOMMENDATIONS

December 31, 2001

STATE LAW AND REGULATIONS:

1. The Sheriff Should Prepare Accurate Classifications On Financial Reports And Keep Consistent Financial Records

The Sheriff should prepare an accurate 4th Quarter Financial Statement. The Sheriff's Receipts and Disbursements Ledgers should match the 4th Quarter Financial Statement with few adjustments. We recommend that the Sheriff prepare an accurate 4th Quarter Financial Statement.

Sheriff's Response:

Firmly Agrees.

2. The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Depository Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41240 (4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 13, 2001, the collateral and FDIC insurance together did not equal or exceed the amount on deposit leaving \$198,351 of public funds uninsured and unsecured.

Sheriff's Response:

Needs Further Assistance from Bank.

3. The Sheriff Should Publish A Final Statement Within 60 Days After Year-end

The Sheriff did not publish his annual financial statement in accordance with KRS 424.220(6), which requires the settlement to be published within 60 days after the close of the calendar year. The Sheriff did publish his settlement on June 19, 2002. We recommend this be done in a timelier manner.

Sheriff's Response:

Agrees; Intends to Improve.

LEE COUNTY
HARVEY PELFREY, SHERIFF
COMMENTS AND RECOMMENDATIONS
December 31, 2001
(Continued)

4. The Sheriff Should Not Write Checks Payable To Cash

The Sheriff has been making checks payable to cash. Most of these instances were due to travel expenses. However, we recommend that in order to strengthen internal control, these practices be discontinued.

Sheriff's Response:

Firmly Agrees.

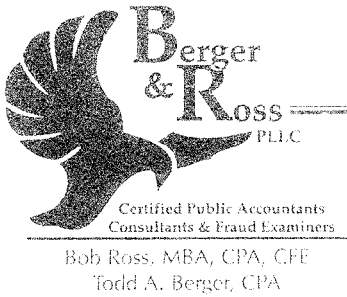
5. Sheriff Should Categorize Payroll Deductions By Category On Computer Software

The Sheriff has been categorizing all payroll deductions into one account. We recommend that the payroll deductions be separately classified in the computer software program. This would provide more efficient evidence and easier reconciliations for the payroll accounts for categories such as retirement and FICA. This would provide more efficient evidence for the payroll accounts for categories such as retirement and FICA.

Sheriff's Response:

Plans to change payroll record keeping.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Association of Certified Fraud Examiners (ACFE)
Association of Government Accountants (AGA)
National Association of Public Accountants (NAPAs)
National Association of Accountants (NAA)
National Association of Tax Professionals (NATP)
Government Finance Officers Association (GFOA)

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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Lee County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated June 28, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lee County Sheriff's financial statement for the year ended December 31, 2001, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations:

- The Sheriff Should Prepare Accurate Classifications On Financial Reports and Keep Consistent Financial Records.
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits.
- The Sheriff Should Publish Financial Statements Within 60 Days After Year-End.
- The Sheriff Should Not Write Checks Made Payable To Cash.
- The Sheriff Should Categorize Payroll Deductions By Category On Computer Software.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed –
June 28, 2002

